

AR26

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Sunlite Oil Company Limited

1975 Annual Report



DIRECTORS

PETER M. CLARKE,
Vice President, Canada,
Mesa Petroleum Co.
Calgary, Alberta

J. STEWART FISHER,
Barrister and Solicitor
Partner, MacKimmie Matthews
Calgary, Alberta

GAINES L. GODFREY,
Assistant to the President
Mesa Petroleum Co.
Amarillo, Texas

DONALD E. HOCKADAY, Jr.,
Executive Vice President
of the Company
Houston, Texas

EDWIN C. JAMES,
President of the Company
Houston, Texas

BARRY W. SWAN
Treasurer of the Company
Calgary, Alberta

OFFICERS

EDWIN C. JAMES,
President

DONALD E. HOCKADAY, Jr.,
Executive Vice President

J. STEWART FISHER,
Secretary

BARRY W. SWAN,
Treasurer

E. CHRISTA HINOJOSA,
Assistant Secretary

HEAD OFFICE

1120, 540 - 5th AVENUE S.W.
Calgary, Alberta

BRANCH OFFICE

2500 ONE ALLEN CENTER
Houston, Texas

SUBSIDIARY COMPANIES

SUNLITE INTERNATIONAL INC.
SUNLITE OIL COMPANY (U.K.) LIMITED

BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE
Calgary, Alberta

CONTINENTAL ILLINOIS NATIONAL BANK
Chicago, Illinois

CAPITAL NATIONAL BANK
Houston, Texas

AUDITORS

THORNE, RIDDELL & CO.
Calgary, Alberta

SOLICITORS

MacKIMMIE MATTHEWS
Calgary, Alberta

STANLEY J. KRIST and ASSOCIATES
Houston, Texas

TRANSFER AGENT

THE CANADA TRUST COMPANY
Calgary, Alberta

FIRST NATIONAL CITY BANK
New York, New York

COMMON SHARES LISTED

VANCOUVER STOCK EXCHANGE

description of business

The company was incorporated March 2, 1945, under the laws of the Province of Alberta, Canada. Sunlite is engaged in the exploration for and development of oil and gas properties and the exploration for mineral properties. Producing interests are held in Alberta, British Columbia and Saskatchewan and in Louisiana, U.S.A. The Principal exploratory interests of the company are located throughout Canada and the U.S.A. and in the British, Dutch and German Sectors of the North Sea.

annual meeting and form 10-k

The Annual General Meeting of shareholders will be held on Monday, December 22, 1975 at ten o'clock A.M. (local time) at 6th floor, 240 Fourth Avenue S.W., Calgary, Alberta. A formal notice of this meeting, together with a proxy statement and information circular and form of proxy, is being mailed with this report.

Sunlite will provide its Form 10-K Annual Report (without exhibits) upon written request from its shareholders. Exhibits are available upon request at a charge sufficient to cover the company's mailing and reproduction costs.

AR26

SUNLITE OIL COMPANY LIMITED and
SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF
CHANGES IN FINANCIAL POSITION
FOR THE SIX MONTHS ENDED MARCH 31, 1975
(Unaudited)

	1975	1974
WORKING CAPITAL DERIVED FROM		
Operations	\$ 67,915	\$ —
Sale of fixed assets	73,853	2,453,243
Advances on natural gas contracts	190,681	—
Issuance of capital stock	—	10,000
	332,449	2,463,243
WORKING CAPITAL APPLIED TO		
Operations	—	14,019
Fixed assets		
Drilling and development	453,050	22,871
Property acquisitions	184,953	78,791
Other	205,802	49,752
Increase in notes receivable	—	851,000
	843,805	1,016,433
INCREASE (DECREASE) IN WORKING CAPITAL	(511,356)	1,446,810
Working capital at beginning of period	3,510,529	1,485,413
WORKING CAPITAL AT END OF PERIOD	\$2,999,173	\$2,932,223

SUNLITE OIL COMPANY LIMITED
1120 540 - 5th Avenue S.W.
Calgary, Alberta T2P 0M2

INTERIM REPORT

20840-01 343066-3
THE GLOBE AND MAIL
140 KING ST W
TORONTO ONT

Joe

sunlite
oil
company
limited

1975

INTERIM REPORT
TO SHAREHOLDERS

For Six Months
Ended March 31, 1975

TO OUR SHAREHOLDERS

This Interim Report to Shareholders covers the six months ending March 31, 1975.

During the past six months revenues from oil and gas sales have continued to increase, reaching \$306,902, as compared with \$209,626, for the six month period ending March 31, 1974, reflecting new production and improved prices. It is anticipated that there will be a further substantial increase in revenues when Sunlite's Helmet gas field is placed on stream in early 1976.

Property sale income of \$71,655, is from sale of an option to acquire the Company's coal interests in the Beluga Lake area of Alaska. If the option is exercised, the Company will receive an additional \$500,000, and retain an overriding royalty interest.

Based on unaudited figures, there was a loss for the period of \$31,483, or \$.01 per share. After elimination of non-cash items, cash flow from operations for the period was approximately \$68,000.

Drilling and development costs of \$453,000, reflects Sunlite's share of its winter drilling program. In the Helmet area, three successful gas wells and one dry-hole were drilled at a cost of \$360,000. Pre-payments on future gas production provided \$190,000, of this amount. The Company participated in drilling one development well and in the building of a gas plant at a net cost of \$46,000, in the Doris Creek field.

Exploration and dry-hole costs of \$67,723, includes the expense of two unsuccessful tests in the Edwand area of Alberta, general exploration expenses in the German North Sea and costs of reviewing prospects in other foreign areas. The Company also participated in two exploratory wells in the United States, both of which have had encouraging results and are currently being evaluated.

Property acquisitions include a payment of \$150,000, for an interest in an offshore concession in the Khmer Republic and purchase of leases in South Dakota. Other fixed asset additions include the cost of supplies and rig mobilization preparatory to our 1975 program of drilling in the Company's U.K. North Sea holdings.

Sunlite's working capital position on March 31, 1975 remained strong at \$2,999,173. On May 8, 1975 an additional \$1,300,000, U.S. was received from sale of stock to Mesa Petroleum Company at \$7.00 per share pursuant to the subscription agreement of March 25, 1974.

NORTH SEA

After the Penrod 71 semisubmersible rig was delivered in February and towed to the Azores it was found to have developed structural failures which will require extensive repairs before the unit is usable. Sunlite and other companies have contracted to use the rig for a period of two years at favorable rates, but will have no liability for the repairs.

Negotiations are underway for a replacement for the Penrod 71 to drill our prospect on U.K. North Sea Block 21/7 by mid-June of this year.

Two additional tests are scheduled for drilling during 1975 — one on Block 48/12 in the U.K. North Sea and one on Block S/2 in the Dutch North Sea. These prospects are in relatively shallow water and require use of jack-up drilling rigs which have been in short supply. This situation appears to be easing somewhat and it is expected that rigs will become available to drill these prospects later this year.

The economic outlook for exploration in the North Sea, in particular the U.K. sector, has been altered by governmental actions since the Company undertook the venture. After analyzing the effects of the recently enacted U.K. regulations, we have concluded that the area is still attractive since exploration risks are lower than average, the potential is good for large discoveries and development of production is still attractive. We continue to be optimistic about our North Sea prospects, and plan an active exploration program over the next several years.

OTHER FOREIGN VENTURES

Sunlite has entered into an agreement with United Refining Company, whereby, Sunlite will acquire an interest in certain of United's foreign concessions by participating in exploration and drilling. Drilling will commence on the first prospect by the end of the summer.

WESTERN CANADA

Sunlite had a successful winter drilling program in Western Canada with completion of four gas wells out of seven wells in which the Company participated. Three of the four successful gas wells were drilled in the Helmet area of British Columbia, and flowed at rates varying from 6,000 mcf/d to 10,000 mcf/d on drill stem tests. Development of the field is expected to be completed next winter with the drilling of two additional wells. With completion of production facilities and a gas pipeline, gas sales from the field should begin early next year. The British Columbia Petroleum Corporation, an agency of the provincial government, has agreed to advance interest free funds for development of the field, to be repaid out of 50% of future production. Sunlite's interest in wells in the Helmet area ranges from 18% to 22%.

The fourth successful gas completion was in the Doris Creek area located in west-central Alberta. There are now six gas wells in the field. With completion of production facilities and a gas plant, the field is expected to be on a stream in July of this year.

SUNLITE OIL COMPANY LIMITED and SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS FOR THE SIX MONTHS ENDED MARCH 31, 1975 (Unaudited)

	1975	1974
REVENUE		
Oil and gas sales	\$ 306,902	\$ 209,626
Property sales	71,665	776,816
Investments	160,377	187,679
Other	2,074	2,444
	541,018	1,176,565
EXPENSE		
Well operating	47,600	36,496
General and administrative	242,600	215,024
Carrying charges on non-producing properties	75,912	50,662
Exploration and dry hole costs	67,723	135,075
Property surrenders and write-offs	42,441	30,634
Depletion and depreciation	67,225	58,783
	543,501	526,694
Earnings (Loss) before income taxes and extraordinary item	(2,483)	649,871
Provision for income taxes		
Current	—	110,889
Deferred	29,000	268,871
	(31,483)	379,760
Realization of tax benefit of prior period losses	—	270,111
NET EARNINGS (Loss)	\$ (31,483)	\$ 110,889
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	2,597,099	2,379,807
PER SHARE		
Earnings (loss) before extraordinary item	\$ (.01)	\$.11
Realization of tax benefit of prior period losses	—	.05
NET EARNINGS (Loss)	\$ (.01)	\$.16

May 15, 1975

PRESIDENT

David Donald

to the shareholders:

Revenues from oil and gas sales increased 60% over last year to \$710,468 and investment income was \$267,324. Cash flow from operations was \$221,053. Working capital decreased during the year due to increased drilling and development activity and lease and permit acquisitions, but the company remains in a strong cash position with approximately \$3 million. The Company will receive a final payment of \$1.3 million in May 1976 from a private placement of stock.

The long awaited North Sea drilling program is now underway with delivery of the Penrod 71 rig. It is expected that three exploratory tests will be drilled with this rig on Sunlite's deeper water blocks in the U.K. sector during late 1975 and 1976. Additionally, a well is currently being drilled on Block 48/12 in the U.K. southern gas area. In Dutch waters, an exploratory well to test a prospect on Block P/6 will be started in November and in the German North Sea an exploratory well on Block J/18 is planned for March, 1976. A continuing drilling program is projected on Sunlite's North Sea holdings over the next three years with exploration of additional prospects which have been defined in the U.K., German and Dutch sectors.

The Company plans to continue an exploration program in Canada, since the political climate has improved and gas prices are better, although still low by world standards.



**sunlite
oil
company
limited**

financial review

While operations for the year resulted in a positive cash flow, there was a net loss of \$417,576 or \$0.16 per share. This was caused by a number of factors, the most important of which reflects the Company's increased exploration activity, both domestic and overseas. Operating costs were greater in proportion to increased oil and gas sales while general and administrative expenses remained nearly constant.

Increases in carrying charges on exploratory acreage acquired, cost of dry holes and write-off of exploratory acreage account for the major portion of the increase in expenses of \$613,591. Carrying charges on non-producing acreage reflect principally the acquisition of leases in the U.S.A.. A major portion of the \$275,000 dry hole expenditure is attributable to our exploratory well in the Dutch North Sea costing \$180,000 with the balance accounted for by five shallow tests in the U.S.A. and Canada.

Property surrenders and write-offs result from the write-off of our Khmer Republic concession in the amount of \$352,000 due to the political uncertainties; the write-off of certain non-producing leases and royalty interests in Canada and the U.S.A. of \$122,000; and the write-off of our Australian prospect in the Gulf of Carpentaria of \$25,000.

Seismic and other exploratory programs were carried out in the British, Dutch and German sectors of the North Sea at a cost of \$110,000.

The Company's investment in development expenditures increased to \$452,000 in the current fiscal year. The major programs include the Hamilton Lake Field infill drilling and expansion of the successful water flood; further development of the Doris Creek Field, and the development of the Helmet Gas Field (of which approximately one-half was financed by an interest-free advance from the British Columbia Petroleum Corporation).

Property acquisitions reflect the capitalization of the cost of an earning well on Block 21/7 in the British North Sea in the amount of \$422,000, purchase of a gas license in the Grasslands area of Alberta costing \$56,000 and additional acquisition expenses relating to the Horsehead Lake, North Dakota properties.

Other fixed asset additions include \$445,000 advanced to United Refining Co. for our share of a joint venture project; drilling supplies acquired for future programs in the British, German and Dutch sectors of the North Sea costing \$450,000, and for the Hamilton Lake, Alberta project costing \$13,000; costs of new groups in the British North Sea and of preliminary investigation of other foreign ventures totalling \$45,000.

Working capital at September 30, 1975 was \$2,961,054, a decrease of \$549,475 for the year.

As shown by the notes to the financial statements, the Company has obligations for work commitments and contingent liabilities totalling \$2,428,000. The amount includes bank guarantees to the Federal Government of Canada for work commitments amounting to \$228,000; drilling commitments in the British, German and Dutch sectors of the North Sea for an estimated \$1,670,000 and a commitment for sharing a drilling rig to be used in the North Sea totalling \$530,000.

The Company has received advance payment for gas reserves in the amount of approximately \$170,000 from the British Columbia Petroleum Corporation to finance drilling and development in the Helmet area of British Columbia. Additional advances of approximately \$800,000 have been arranged to finance our share of the planned 1975-76 Winter program. The advances will be repaid without interest from 50% of the production from certain of the wells producing in the Helmet Field.

UK	
15/8	10%
16/26	10%
21/7	5%
21/14	5%*
28/5	10%
29/25	10%
48/12	5%
48/13(b)	5%
48/18(b)	8 1/2 %
48/19(b)	8 1/2 %
210/1	7 1/2 %
210/2	7 1/2 %

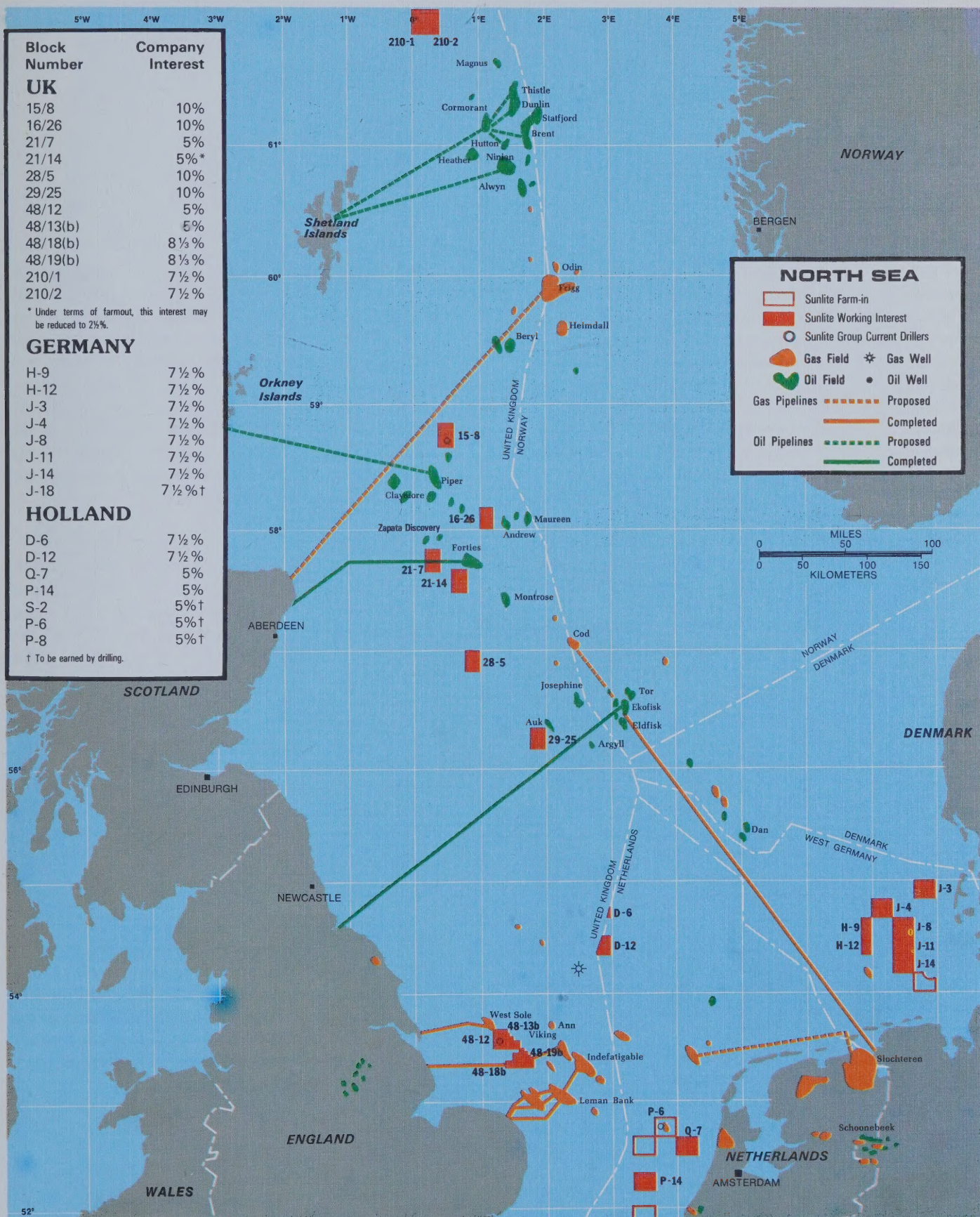
GERMANY

H-9	7½ %
H-12	7½ %
J-3	7½ %
J-4	7½ %
J-8	7½ %
J-11	7½ %
J-14	7½ %
J-18	7½ % t

HOLLAND

D-6	7 1/2 %
D-12	7 1/2 %
Q-7	5 %
P-14	5 %
S-2	5 % †
P-6	5 % †
P-8	5 % †

† To be earned by drilling.



exploration activities

NORTH SEA

Economic and political conditions have altered since Sunlite acquired their North Sea holdings in 1971 and early 1972. There has been a large increase in the price of oil and gas in the world market and, concurrently, substantial increases in exploration and development costs. On the political side, the U.K. Government has acted to increase their take in the form of a special Petroleum Revenue Tax. There are also proposals for majority government participation in discoveries, the nature of which has not been defined; with the exception that it has been stated that the companies would neither stand to lose nor gain by such participation. We have continued to evaluate the effect of these factors, and have concluded that exploration and development of prospects on Sunlite's North Sea holdings remains attractive.

In the next twelve months Sunlite will participate in an active drilling program to explore the company's holdings in the U.K., Dutch and German sectors of the North Sea. It is expected that a total of six wells will be drilled: four in the U.K. and one each in Germany and Holland. Sunlite's interest in these wells ranges from 5% to 10%.

United Kingdom

During the latter part of the fiscal year Sunlite participated in the drilling of an exploratory test of a seismic structure in the southwest quarter of Block 21/7. The well encountered shows of oil and gas in the objective Jurassic horizon, but analysis of technical information indicated that at this location there is insufficient sand for commercial development. A second exploratory well on the block is being considered to test another prospect six miles to the northeast.

On Block 48/12 to the southeast of the West Sole Field an exploratory well is scheduled to commence drilling in October, 1975. It is expected to reach the

objective Rotliegendes sand during the latter part of November. The Penrod 71 semisubmersible rig which will be used to drill wells for the Sea Search group on an alternate slot basis with Sun Oil Company, is now on location for Sun. When this well is completed the rig will be used to drill an exploratory test on Block 15/8 (Sunlite interest - 10%) in the latter part of November, 1975. Two additional exploratory wells are scheduled for drilling with the Penrod 71 rig during the next 12 months to test prospects on Blocks 16/26 and 28/5 (Sunlite interest - 10%).

Germany

Sunlite has joined a group of other companies in earning an interest in the Jade Plate Block in the German sector of the North Sea by performing seismic work. Sunlite's interest in the block is now 10%. The results of the geophysical program were encouraging, and additional seismic is planned for the near future.

The first Sunlite interest exploratory well in the German North Sea is scheduled to begin in March, 1976, to test a large seismic prospect on Block J/18. Sunlite's interest in the Block is 7½%. Three additional exploratory wells to test prospects on Sunlite's other holdings in the German sector are scheduled to be drilled in the following year.

Holland

Sunlite participated in the drilling of an earning well on Block S/2 in the Dutch Sector of the North Sea under terms of a farmout agreement with Mobil Oil Company covering Blocks S/2, P/6 and P/8. The test failed to encounter a commercial accumulation and was abandoned without testing. A second exploratory well is scheduled to begin in early November to test a prospect on Block P/6.



CANADA

Helmet

During the past year Sunlite participated in the drilling of four wells in the Helmet gas area of north-east British Columbia. Three of these tests were completed as Slave Point gas wells, while the fourth test was cased and will be used as a salt water disposal well. Sunlite's interest in the Helmet area ranges from 18 to 22.5% in 8,138 lease acres and the four gas wells and one salt water disposal well situated thereon. The Company also has a 2.5% interest in three additional leases totalling approximately 3,400 acres in this area.

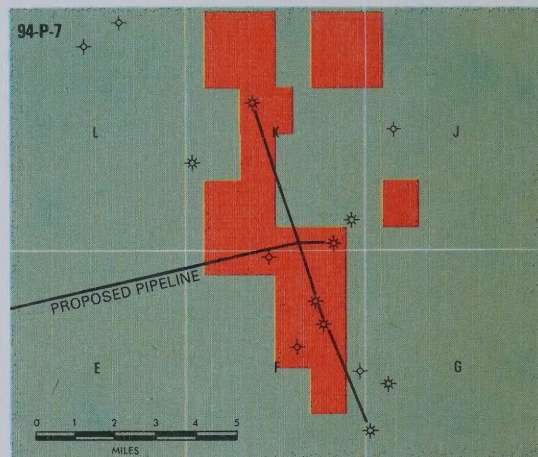
It is planned to drill one and possibly two more development wells and re-complete one well during the coming winter drilling season. Depending upon results of this program, and competitive drilling, one additional well may be added to complete development of Sunlite's holdings. It is expected that all the pipeline and wellsite facilities will be installed this winter and the first gas deliveries made in the spring of next year at a price of 55 cents per thousand cubic feet.

The maximum efficient production rates for wells in the field have not been established, but on a conservative basis it is expected that with complete development Sunlite's cash flow from the Helmet Field will be approximately \$400,000 per year.

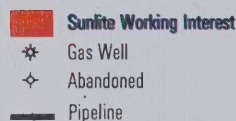
Doris Creek

The Doris Creek gas group (Sunlite 5%) completed its sixth gas well in the Doris Creek area of west central Alberta in the early spring of this year. The well is shut in awaiting completion and will be connected to the group's gathering system and gas plant later this year.

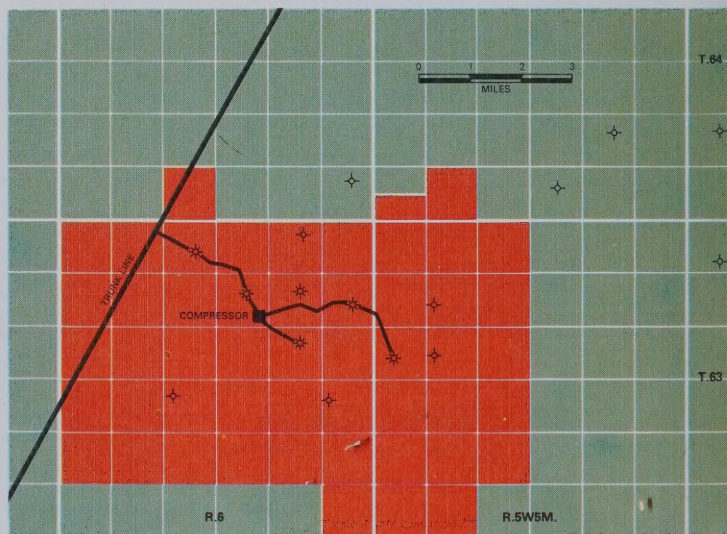
The gas plant was completed in June of this year with the first deliveries of gas made that same month. The gas is contracted to TransCanada Pipelines at \$0.60 per thousand cubic feet but it is expected that the field price of gas will range between 75 and 90 cents per thousand cubic feet effective November 1, 1975.



HELMET, B.C.



DORIS CREEK, ALBERTA



Unity

Sunlite and others participated in a farmout of approximately 108,000 gross acres contained in two permits, in the Unity area of west central Saskatchewan. In accordance with the terms of the farmout agreement the Sunlite group drilled 7 wells resulting in 1 gas well and 6 abandonments, thereby earning fifty percent interest in 67,000 acres (Sunlite interest 17.5 percent).

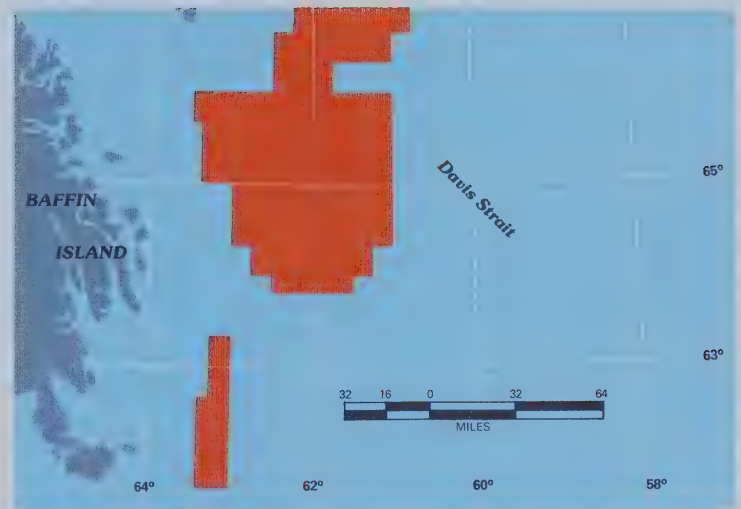
The six abandonments were drilled at no cost to your Company while we paid only thirty-five percent of the completion costs of the gaswell. Further development in the area is dependent upon an improvement in gas prices.

East Coast Canada/ Baffin Island

Canada-Cities Service has continued there program of evaluating Sunlite's holdings in 8½ million acres offshore Baffin Island (Sunlite - 20.6%) by performing seismic surveys during the 1976 season. In their previous surveys promising structures were found and the 1976 program was designed to delineate the prospects more fully. With this work Cities Service has completed their preliminary investigation of the block thereby earning a 25% interest.

There were nine wells drilled off the Labrador coast during the period under review resulting in two gas discoveries, five abandonments and two suspended wells which encountered significant oil shows. The latter prospects will be further evaluated during the next drilling season. The gas wells and the suspended wells are the most northerly drilled to date off the Labrador coast.

In another significant development Imperial Oil Ltd. has completed an agreement with another major company involving 2½ million acres in which Imperial can drill to earn an interest. This acreage is immediately to the south of the Sunlite permits and exploratory drilling will assist in evaluating our holdings.



EAST COAST CANADA BAFFIN ISLAND

 Sunlite Working Interest

Arctic Islands

The first commercial oil discovery in the Arctic Islands was recently confirmed by Panarctic Oils Ltd. The well, Bent Horn F-72A on Cameron Island flowed 3000 barrels of low sulfur, 43° API gravity oil per day on a drill stem test of the Devonian Carbonate section. Sunlite has a 2% overriding royalty on 120,000 acres offshore approximately 15 miles west of the discovery. Panarctic's preliminary estimate of reserves is 200 - 300 million barrels. The Bent Horn F-72A oil discovery is expected to renew interest in the search for oil reserves throughout the Arctic Islands.

Sunlite has maintained its interest in permits totalling 550,743 in the Ellesmere Island and Axel Heiberg areas. In the deep water permits to the north of Banks Island totalling 207,000 acres, Sunlite transferred its working interest position to Elf Oil retaining a 2% overriding royalty interest.



BENT HORN, ARCTIC ISLANDS

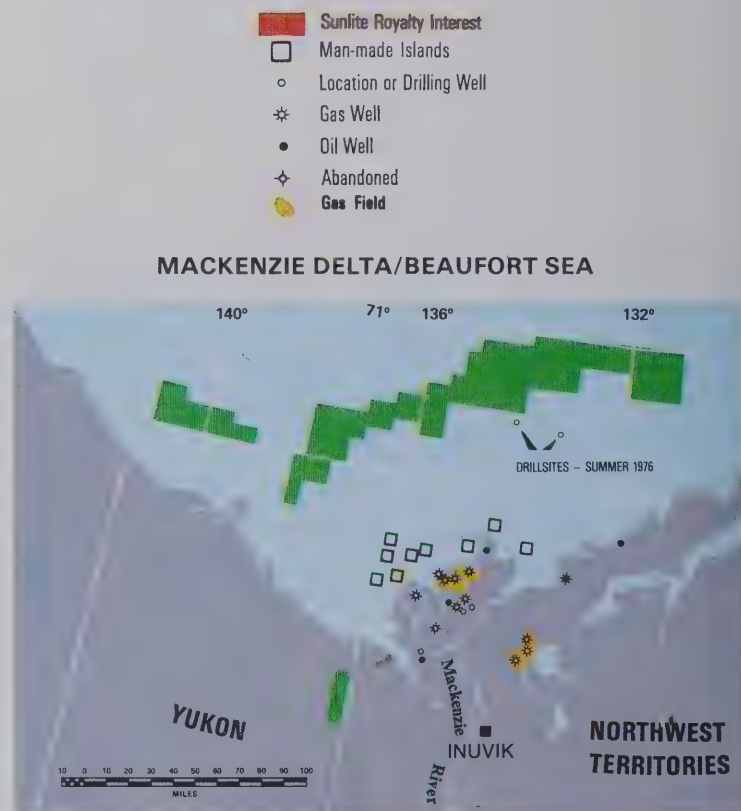
MacKenzie Delta/Beaufort Sea

Dome Petroleum Limited has announced locations for two exploratory wells to be drilled in the summer of 1976 in the Beaufort Sea near a three million acre block on which Sunlite holds a 1% overriding royalty interest. This will be the initial attempt to evaluate the large structures which are known to exist in the deeper waters of the Beaufort Sea and the first time that drill ships have been used to explore in Arctic waters.

For the Board of Directors:

Edwin C. James

EDWIN C. JAMES
President
December 5, 1975



financial statements

consolidated balance sheet

consolidated statement of earnings

consolidated statement of deficit

consolidated statement of changes in financial position

notes to consolidated financial statements

auditors' report



Sunlite Oil Company Limited
And Subsidiary Companies

consolidated balance sheet

as at September 30, 1975

assets

CURRENT ASSETS

Cash	\$ 2,110,697	\$2,550,226
Marketable securities, at lower of cost and market	248,880	482,702
Accounts receivable (Notes 2 and 3)	1,117,628	758,661
	<u>3,477,205</u>	<u>3,791,589</u>

PROMISSORY NOTES (Note 3)

<u>966,700</u>	<u>891,000</u>
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FIXED ASSETS, at cost (Notes 1 and 4)

Petroleum and natural gas leases and rights together with development and equipment thereon		
Producing	2,174,925	2,021,311
Accumulated depletion and depreciation	<u>389,717</u>	<u>289,302</u>
	1,785,208	1,732,009
Non-producing		
Leases	1,856,007	1,550,966
Royalty rights	209,892	247,068
Other	<u>2,136,547</u>	<u>1,052,146</u>
	5,987,654	4,582,189
Other mineral rights, including development	<u>189,690</u>	<u>176,945</u>
	6,177,344	4,759,134

OTHER ASSETS

<u>107,846</u>	<u>99,957</u>
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<u>\$10,729,095</u>	<u>\$9,541,680</u>
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liabilities

CURRENT LIABILITIES

Accounts payable

ADVANCES AND DEFERRED REVENUE (Note 5)

DEFERRED INCOME TAXES (Note 1)

shareholders' equity

CAPITAL STOCK (Note 6)

Authorized


6,000,000 shares without nominal or par value


Issued

2,782,813 shares (1974—2,597,099 shares)

DEFICIT

Signed on behalf of the Board:

 Director

 Director

<u>1975</u>	<u>1974</u>
\$ <u>516,151</u>	\$ <u>281,060</u>
<u>246,914</u>	<u>-</u>
<u>680,021</u>	<u>894,735</u>
<u>9,781,405</u>	<u>8,443,705</u>
<u>(495,396)</u>	<u>(77,820)</u>
<u>9,286,009</u>	<u>8,365,885</u>
<u>\$10,729,095</u>	<u>\$9,541,680</u>

Sunlite Oil Company Limited
And Subsidiary Companies

consolidated statement of earnings

For The Year Ended September 30, 1975

	<u>1975</u>	<u>1974</u>
REVENUE		
Oil and gas sales	\$ 710,468	\$ 445,873
Property sales	-	778,186
Investments	267,234	293,901
Other	4,292	15,483
	<u>981,994</u>	<u>1,533,443</u>
EXPENSE		
Operating	96,315	74,309
General and administrative	444,903	464,394
Carrying charges on non-producing properties	131,699	67,495
Dry hole costs	274,812	91,126
Exploration	110,522	117,009
Property surrenders and write-offs	498,036	120,488
Depletion and depreciation	102,324	110,199
	<u>1,658,611</u>	<u>1,045,020</u>
Earnings (loss) before income taxes and extraordinary item	<u>(676,617)</u>	<u>488,423</u>
Recovery of (provision for) income taxes		
Current	-	(409,601)
Deferred	259,041	94,200
	<u>259,041</u>	<u>(315,401)</u>
Earnings (loss) before extraordinary item	<u>(417,576)</u>	<u>173,022</u>
Realization of tax benefit of prior period losses	-	409,601
NET EARNINGS (LOSS)	<u>\$ (417,576)</u>	<u>\$ 582,623</u>
PER SHARE (Based upon weighted average number of shares outstanding)		
Earnings (loss) before extraordinary item	<u>\$ (.16)</u>	<u>\$.07</u>
Net earnings (loss)	<u>\$ (.16)</u>	<u>\$.24</u>

consolidated statement of deficit

For The Year Ended September 30, 1975

	<u>1975</u>	<u>1974</u>
DEFICIT AT BEGINNING OF YEAR	\$ (77,820)	\$ (660,443)
NET EARNINGS (LOSS) FOR THE YEAR	<u>(417,576)</u>	<u>582,623</u>
DEFICIT AT END OF YEAR	<u>\$ (495,396)</u>	<u>\$ (77,820)</u>

Sunlite Oil Company Limited
And Subsidiary Companies

consolidated statement of changes in financial position

For The Year Ended September 30, 1975

	<u>1975</u>	<u>1974</u>
WORKING CAPITAL DERIVED FROM		
Net earnings (loss)	\$ (417,576)	\$ 582,623
Add (deduct) items not affecting working capital	<u>142,191</u>	<u>(602,535)</u>
	(275,385)	(19,912)
Add property acquisitions, dry hole costs and exploration expenditures charged to operations	<u>496,438</u>	<u>180,184</u>
Working capital derived from operations before dryhole, property and exploration costs	221,053	160,272
Reduction in notes receivable (Note 3)	62,650	-
Gas contract advances and prepaid royalties	246,914	-
Issue of capital stock (Note 6)	1,337,700	1,182,274
Sale of fixed assets	<u>-</u>	<u>2,434,321</u>
	<u>1,868,317</u>	<u>3,776,867</u>
WORKING CAPITAL APPLIED TO		
Dryhole costs	214,620	91,126
General exploration costs	110,522	89,058
Property acquisitions charged to expense	<u>171,296</u>	<u>-</u>
	496,438	180,184
Fixed assets (Note 4)		
Drilling and development	452,280	106,651
Property acquisitions	503,058	431,524
Other	961,183	433,266
Increase in notes receivable	-	551,000
Other	<u>4,833</u>	<u>15,855</u>
	<u>2,417,792</u>	<u>1,718,480</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(549,475)	2,058,387
Working capital at beginning of period	<u>3,510,529</u>	<u>1,452,142</u>
WORKING CAPITAL AT END OF YEAR	<u>\$2,961,054</u>	<u>\$3,510,529</u>

Sunlite Oil Company Limited
and subsidiary companies

notes to consolidated financial statements

For The Year Ended September 30, 1975

NOTE 1. ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the company's wholly-owned subsidiaries, Sunlite International Inc., and Sunlite Oil Company (U.K.) Limited.

Amounts in foreign currency are converted to Canadian dollars on the following bases:

- i) Current assets and current liabilities, at the rate of exchange as at the balance sheet date.
- ii) Fixed assets and related depreciation, at the rate of exchange at the date of acquisition.
- iii) Other expenses and revenues, at the average rate of exchange for the year.

Petroleum and Natural Gas Properties

The cost of acquisition of leases and royalty rights, including drilling expenditures and exploratory dry holes which earn an interest, are capitalized. Costs are charged to earnings when properties are surrendered or considered to be of decreased value. The costs of producing leases and royalty interests are amortized using the unit of production method.

Exploration expenses, other than dry holes which earn an interest, and carrying charges of both producing and non-producing properties are charged to earnings as incurred. The costs of drilling a productive well, including the cost of production equipment, are capitalized and amortized using the unit of production method. The cost of an unproductive well is charged to earnings when determined to be dry.

Other Mineral Rights

The costs of acquisition, evaluation and development of mineral properties are capitalized. Such costs will be amortized using the unit of production method or, when properties are proven to be uneconomical, they are charged to earnings.

Income Taxes

The companies follow the tax allocation method of accounting for income taxes under which the income tax provision is based upon earnings reported in the accounts.

NOTE 2. ACCOUNTS RECEIVABLE

The following items are included in accounts receivable at September 30, 1975:

- i) An amount of \$190,000 U.S. representing the amount due on sale of mineral properties. During October, 1971, the company commenced legal action to collect the amount. Counsel for the company has advised that, in their opinion, the claim is valid.
- ii) An amount of \$59,400 representing income taxes paid as a result of a reassessment on 1973 earnings. The company has filed a notice of objection and is appealing the reassessment.

NOTE 3. PROMISSORY NOTES

	1975	1974
Due from officers and directors, non-interest bearing, due in 1977 and 1978	\$ 340,000	\$ 340,000
Non-interest bearing notes, receivable in equal annual installments to July 1, 1980 (less discount for 10% imputed interest)	768,950	830,600
	1,108,950	1,170,600
Current maturity included in accounts receivable	142,250	279,600 ¹
	<u>\$ 966,700</u>	<u>\$ 891,000</u>

An extension of two years was granted to an officer and director for payment of a \$100,000 note due on July 2, 1975. As a result, the amount shown as a current maturity at September 30, 1974 has been reclassified as a long-term note receivable. A fee of ½ of 1% per year was charged for granting of the extension.

NOTE 4. FIXED ASSETS

During the year exploratory dry hole costs which earned an interest were capitalized in the amount of \$422,000.

NOTE 5. ADVANCES AND DEFERRED REVENUE

Gas Contract Advances

The company has received to date \$169,538 in advances on future gas sales to enable it to explore and develop a natural gas property. Additional advances of approximately \$800,000 have been arranged to enable completion of the project. These advances are secured by the properties and are repayable from 50% of future production.

Prepaid Royalties

Sunlite has received \$77,376 as its share of prepaid royalties on a coal property pursuant to an agreement whereby an exploration program will be carried out. The agreement grants an option that will entitle the optionee to acquire additional acreage for a further royalty prepayment. When production commences, the prepaid royalties will be recognized as income as a 1% gross overriding royalty is earned. If the option is not exercised prior to December 31, 1976, the initial prepayment of royalty will be forfeited by the optionee.

NOTE 6. CAPITAL STOCK

Changes in capital stock during the year ended September 30, 1975 were as follows:

	Number of Shares	Consideration
Balance at September 30, 1974	2,597,099	\$8,443,705
Shares issued pursuant to subscription agreement, at Canadian dollar equivalent	<u>185,714</u>	<u>1,337,700</u>
Balance at September 30, 1975	<u>2,782,813</u>	<u>\$9,781,405</u>

Pursuant to an agreement signed on March 25, 1974, Mesa Petroleum Co. agreed to purchase an aggregate of 564,881 common shares of Sunlite in the following amounts on the following dates and at the following prices:

- i) 216,664 shares at \$6.00 (U.S.) cash per share on May 8, 1974;
- ii) 185,714 shares at \$7.00 (U.S.) cash per share on or before May 8, 1975;
- iii) 162,500 shares at \$8.00 (U.S.) cash per share on or before May 8, 1976.

The shares referred to in items (i) and (ii) above were issued and paid for in accordance with the agreement. The option granted concurrently with the subscription agreement for the right to purchase an additional 2,435,119 common shares at a price of \$10.00 (U.S.) per share lapsed on May 9, 1975 without having been exercised.

On December 20, 1974, options to purchase an aggregate of 16,500 common shares of Sunlite were granted to two officers and two other employees. The options were granted at a price of \$2.00 per share and are exercisable in cumulative installments over a five year period with a 10% increase in exercise price each year and are not exercisable prior to December 20, 1975. In addition, officers and directors hold options to purchase 114,000 common shares, exercisable as to 4,000 shares in cumulative installments to 1977 at \$6.50 per share and as to 110,000 shares in cumulative installments to 1978 at \$6.00 per share.

NOTE 7. REMUNERATION OF DIRECTORS AND OFFICERS

Remuneration paid during the current year to directors and senior officers totalled \$154,000.

NOTE 8. COMMITMENTS

The company has issued non-interest bearing demand notes aggregating approximately \$228,000 to governmental agencies as security for performance of work obligations in respect of normal exploration activities. In addition, the company has commitments for exploratory drilling in the North Sea at an estimated cost of \$2,200,000.

auditors' report

To the Shareholders
Sunlite Oil Company Limited

We have examined the consolidated balance sheets of Sunlite Oil Company Limited and its subsidiaries as at September 30, 1974 and 1975, and the consolidated statements of earnings, deficit and changes in financial position for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the collectibility of the account receivable referred to in Note 2 to the financial statements, these consolidated financial statements present fairly the financial position of the companies as at September 30, 1974 and 1975 and the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Alberta
November 19, 1975

THORNE RIDDELL & CO.
Chartered Accountants

Sunlite Oil Company Limited
and Subsidiary Companies

management analysis and review of five year summary

It has been the goal of Sunlite's management to build an income from exploration and production, principally in North America, while taking a position in foreign areas which have potential for discovery of large reserves, using the best technical methods available. Over the five years income from oil and gas sales have increased substantially, particularly in the last three years. A further large increase in revenues is anticipated for fiscal 1976 when gas reserves from the Helmet Field in British Columbia go on stream.

During the five years an overseas position has been established in twenty six blocks totalling 1,600,000 acres in the U.K., German and Dutch sectors of the North Sea. Technical work has delineated prospects on these holdings on which twelve exploratory tests are projected over the next several years. Prospects in other areas of the world are being continually reviewed and from time to time interests in other foreign concessions have been acquired.

The company has also taken permits and leases in frontier areas, mainly in Canada. The aim has been to sell these at a profit and retain an overriding royalty position. Since sales have occurred periodically income from this source has varied from year to year.

Funds not required for normal business are generally invested in the short term money market, except for a small portfolio of common stock. Income from investments varies with the amount of capital available and interest rates.

Operating, general and administrative costs have generally increased with oil and gas sales, increased activity and from the impact of inflation. Other costs such as carrying charges for acreage, geological and geophysical expense and exploratory drilling have varied from year to year depending upon levels of activity and acreage inventory.

The management considers that the company has made considerable progress during the past five years: Revenues have increased substantially with further increases projected from existing projects; and the North Sea project has resulted in a number of large prospects six of which will be tested during the forthcoming year.

**price range of common stock
on vancouver stock exchange**

	1975		1974	
	High	Low	High	Low
First Quarter	\$3.25	\$1.80	\$5.65	\$4.80
Second Quarter	3.40	2.10	8.25	5.50
Third Quarter	4.35	3.00	5.25	2.50
Fourth Quarter	5.40	3.05	3.80	2.25

Sunlite Oil Company Limited
And Subsidiary Companies

five year earnings summary

	Year Ended September 30				
	1975	1974	1973 RESTATED NOTE	1972 RESTATED NOTE	1971 RESTATED NOTE
REVENUE					
Oil and gas sales	\$ 710,468	\$ 445,873	\$ 139,697	\$ 38,507	\$ 26,265
Lease sales	-	778,186	2,005,847	23,642	25,652
Investments	267,234	293,901	193,535	168,909	285,063
Other	4,292	15,483	2,329	8,490	10,868
	<u>981,994</u>	<u>1,533,443</u>	<u>2,341,408</u>	<u>239,548</u>	<u>347,848</u>
EXPENSES					
Operating	96,315	74,309	27,789	13,075	13,137
General and administrative	444,903	464,394	397,736	241,449	181,681
Carrying charges on non-producing properties	131,699	67,495	111,126	93,500	74,181
Exploration and dry hole costs	385,334	208,135	375,514	106,309	104,541
Property surrenders and write-offs	498,036	120,488	281,591	440,403	255,839
Depletion and depreciation	102,324	110,199	26,417	7,221	7,569
	<u>1,658,611</u>	<u>1,045,020</u>	<u>1,220,173</u>	<u>901,957</u>	<u>636,948</u>
Earnings (loss) before income taxes and extraordinary item	<u>(676,617)</u>	<u>488,423</u>	<u>1,121,235</u>	<u>(662,409)</u>	<u>(289,100)</u>
Recovery of (provision for) income taxes					
Current	-	(409,601)	-	-	13,645
Deferred	259,041	94,200	(845,290)	88,797	55,066
	<u>259,041</u>	<u>(315,401)</u>	<u>(845,290)</u>	<u>88,797</u>	<u>68,711</u>
Earnings (loss) before extraordinary item	<u>(417,576)</u>	<u>173,022</u>	<u>275,945</u>	<u>(573,612)</u>	<u>(220,389)</u>
Realization of tax benefit of prior period losses	-	409,601	-	-	-
NET EARNINGS (LOSS) (NOTE)	<u>\$ (417,576)</u>	<u>\$ 582,623</u>	<u>\$ 275,945</u>	<u>\$ (573,612)</u>	<u>\$ (220,389)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	<u>2,671,384</u>	<u>2,466,156</u>	<u>2,367,932</u>	<u>2,329,473</u>	<u>2,308,932</u>
PER SHARE (NOTE)					
Earnings (loss) before extraordinary item	\$ (.16)	\$.07	\$.12	\$ (.25)	\$ (.10)
Realization of tax benefit of prior period losses	-	.17	-	-	-
Net earnings (loss)	<u>\$ (.16)</u>	<u>\$.24</u>	<u>\$.12</u>	<u>\$ (.25)</u>	<u>\$ (.10)</u>
Dividends	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE: The earnings for the years ending Sept. 30, 1971 through Sept. 30, 1973 were restated to reflect the retroactive adoption of tax allocation accounting in 1974.



Sunlite Oil Company Limited

1975 Annual Report